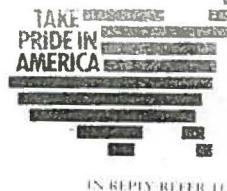




United States Department of the Interior
BUREAU OF LAND MANAGEMENT

Rio Puerco Resource Area
155 Montano N E
Albuquerque, New Mexico 87107



3570 (017)

JAN 13 1986

12-8-88

To: Area Director, Navajo Area Office, BIA
ATTN: Floyd Espinosa, Area Realty Officer

From: Area Manager, Rio Puerco Resource Area, BLM

Subject: Todilto/Exploration and Development Corporation -
Navajo Allotted Lease N00-C-14-20-8396

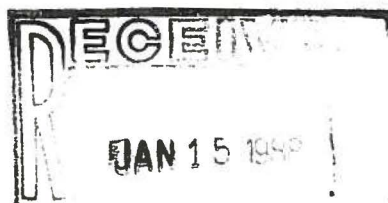
The Minerals Management Service has completed their audit (see attached memo). They found that a total of \$424.13 in additional royalties was due to the allottee. MMS has collected all royalties and interest assessments for this audit, and so are considering the case closed.

As was indicated by my memo to you, dated July 23, 1985 (see attached), we recommend that the lease be relinquished and the lessee's bond released subject to an audit by the MMS. In that all audit issues have been settled by MMS, we recommend final relinquishment of the lease and release of the lessee's bond.

We would like to note that Todilto Exploration corrected several serious safety hazards and did significant work on the site beyond what was required by the lease or/operating plan stipulations. In fact the lease area was left in better shape than when Todilto acquired it.

Unfortunately, both declines left over from previous operations have reopened and further work will be needed to make the site safe. It is our opinion that this reclamation work is not the responsibility of Todilto.

The BIA may want to program funds for reclamation of this, as well as, other sites needing reclamation on Navajo allotted lands. We will be glad to continue providing you with technical support in your minerals programs. If you have any questions, please call Roger Baer (761-4588) of my staff.



NAVAJO AREA OFFICE
BUREAU OF REAL PROPERTY MGMT.

John M. Andrews
acting



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
LAKEWOOD AREA COMPLIANCE OFFICE
P.O. BOX 25165, MS 626
DENVER, COLORADO 80225



8: JAN 4 1986
IN REPLY TO:
REFER TO:
MMS-RCD-L
MS 626
010 ALBUQUERQUE, N.M.

DEC 29 1987

Memorandum

To: Area Manager, Rio Puerco Resource Area Office, Bureau of Land Management

Through: Chief, Royalty Compliance Division *[Signature]*

From: Area Manager, Lakewood Area Compliance Office

Subject: Revised Report on Audit of Todilto Exploration and Development Corporation - Navajo Allotted Lease N00-C-14-20-8396

By memorandum dated October 18, 1985, we reported to you on the results of our audit of Navajo Allotted Lease N00-C-14-20-8396, operated by Todilto Exploration and Development Corporation (Todilto). We conducted the audit in response to your May 1, 1985, request that the Minerals Management Service (MMS) audit the lease. Subsequent to our memorandum, Todilto provided us information which modified our initial findings. Our revised report summarizing the results of the audit and reasons for modification of our original findings follows.

The objectives of the audit were to assure (1) that all solid minerals produced from Navajo Allotted Uranium Lease 46-008396 had been properly accounted for; and (2) that royalties were computed in accordance with applicable Federal laws, regulations, and directives for solid minerals and the lease agreement. The examination was accomplished in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States, and included such tests as deemed appropriate under the circumstances. The audit covered the period of April 9, 1980, through April 19, 1985.

Our audit included review of advance rentals due and paid, minimum royalties due, production royalties due and paid, amounts applied against the minimum royalties, and the minimum royalties paid for Navajo Allotted Uranium Lease 46-008396 located in McKinley County, New Mexico. Fieldwork was completed at Todilto's office in Albuquerque, New Mexico.

Findings and Conclusions

During the audit, certain discrepancies were identified, resulting in potential underpayments due the Bureau of Indian Affairs (BIA) in the amount of \$2,798.49. There were two reasons for the underpayments. Todilto miscalculated the selling price per pound for shipments made in February 1981

and March 1981 (the March 1981 shipment was actually sold in April 1981). Additionally, Todilto applied royalty due on March 1981 production against minimum royalty paid for the 1981 lease year (April 9, 1981, through April 8, 1982). The March 1981 production involved Lots 9499 and 9505 which were actually assayed on April 27 and April 30, 1981, and subsequently sold. The MMS contended that the royalty value for those lots should have been applied to minimum royalty paid in the 1980 lease year, April 9, 1980, through April 8, 1981, because the lots had been produced and shipped in March 1981. Later, MMS reevaluated its position which is discussed later in this report.

By issue letter dated October 18, 1985, MMS notified Todilto that \$2,798.49 of additional royalties were due on the subject lease for the audit period April 9, 1980, through April 8, 1985. However, after review of Todilto's response, dated December 11, 1985, we concluded that only \$875.99 was due, as shown on the attached Statement of Differences (Attachment 3). Todilto paid \$451.86 with its December 11, 1985, letter which reduced the amount of additional royalties still owed to \$424.13. Todilto subsequently paid the \$424.13 on January 30, 1987. The MMS assessed \$175.24 interest on late payments which was paid by Todilto on June 22, 1987.

Incorrect Selling Price Calculation

During February and March 1981, Todilto shipped uranium ore to the purchaser, United Nuclear Corporation (UNC), from several Federal and Indian leases. At the end of each month, the "Weighted Average Selling Price" (WASP) for sales from all leases was used by Todilto to calculate the royalties due, instead of using the correct WASP for each lease. For February 1981, Todilto used a WASP of \$20.082 instead of \$21.53, and for March 1981, it used \$20.424 instead of \$18.98. This action resulted in corresponding inaccurate royalty calculations for each month involved.

<u>Month Shipped</u>	<u>Royalty Value</u>		<u>Difference</u>
	<u>Per MMS</u>	<u>Per Todilto</u>	
02/81	\$2,416.15	\$2,208.04	\$ 208.11
03/81	\$3,649.34	\$3,991.92	\$<342.58>
	<u>\$6,065.49</u>	<u>\$6,199.96</u>	<u>\$<134.47></u>

(See attached Schedules I and II for details of MMS calculations, Attachments 1 and 2)

Selling price computation errors were acknowledged by Todilto, and a revised schedule to its December 11, 1985, letter corrected all amounts except for the month of March 1981 (April 1981 sales) for Lots 9499 and 9505. Todilto's schedule shows a value of \$3,634.26 for March 1981; but, MMS calculations show \$3,649.34, a difference of \$15.08 (undervalued by Todilto).

Production Royalties Misapplied to Minimum Royalties

We have reevaluated MMS's position and concur that the April 1981 sales value of \$3,649.34 should be applied against minimum royalty in Lease Year 1981 (April 9, 1981, through April 8, 1982). Although actual production occurred in Lease Year 1980, the value was established in April 1981 after the beginning of the 1981 lease year and was reported to MMS when it became known.

The lease contract, approved April 9, 1980, requires that production during the lease year shall be credited against minimum royalty. However, past acceptance of "sales" as "production" by MMS and its predecessor [Conservation Division, U.S. Geological Survey (USGS)] has established precedent in referring to oil and gas "production" as sales. The Conservation Division Manual (CDM), an instructional document of USGS, (CDM 647.13.3A, Variable Royalty Rate and Well Count, page 2) provides in part:

"In calculating a royalty rate, production and sales are generally considered to be the same thing, with the sales figures being used to calculate all royalty rates even though the word "production" may be used in this chapter."

Therefore, this precedent will also be accepted and applied relative to this solid mineral audit.

As a result of the above-mentioned change, a \$2,056.97 net overpayment of production royalties created a credit for Lease Year 1981 (see attached Statement of Differences). This amount was used to offset the underpaid 1984 minimum royalty of \$2,932.96 and was considered in determining the final royalty amount due of \$424.13.

The MMS has collected all royalties and interest assessments relative to this audit; and, therefore, we consider this a closed case.

If you have any questions regarding this matter, please call the undersigned at (303) 236-1055 or FTS 776-1055.

Larry M. Crow
Larry M. Crow

3 Attachments

cc: Royalty Management Coordinator

Mr. Del Brewer
Royalty Management Coordinator
Office of Energy and Mineral Resources
Bureau of Indian Affairs
730 Simms, Room 239
Golden, Colorado 80401

MMS Recomputation Schedule I (Revised)

Sales Price and Royalty Calculation

Lot No. 9449

February 1981

Value Per Dry Ton Calculation:

Assay x 20 = pounds per dry ton

.129 x 20 = 2.58 pounds

Price per pound = \$21.53 1/

\$21.53 x 2.58 = \$55.5474 (Value per dry ton)

Royalty Calculation:

.0005 x \$55.5474 = .027774 + .06 = .087774

.087774 x \$55.5474 = \$4.875617 (Royalty value per dry ton)

\$4.875617 x 495.5585 dry tons = \$2,416.15 2/

1/ From table attached to Ore Purchase Agreement.

2/ This amount was applied against minimum royalty in Lease Year 1980 (see Attachment 3)

MMS Recomputation Schedule II (Revised)

Sales Price and Royalty Calculation

Lot No. 9499 & 9505

March 1981 (Sold in April 1981)

Weighted Average Assay Value (WAAV) Calculation:

	<u>Dry tons</u>	<u>U308</u>	<u>Factor</u>
Lot 9499	807.1615	.108	87.173
Lot 9505	346.5730	.096	+33.271
	<u>1,153.7345</u>		<u>120.444</u>

Total factor / total dry tons = WAAV

$$120.444 / 1,153.7345 = \underline{.1044}$$

Value Per Dry Ton Calculation:

$$.1044 \times 20 = 2.088 \text{ pounds per dry ton}$$

$$\text{Price per pound} = \$18.98 \frac{1}{/}$$

$$\$18.98 \times 2.088 = \$39.63 \text{ (Value per dry ton)}$$

Royalty Calculation:

$$.0005 \times \$39.63 = .019815 + .06 = .079815$$

$$.079815 \times \$39.63 = \$3.163068 \text{ (Royalty value per dry ton)}$$

$$\$3.163068 \times 1,153.7345 \text{ dry tons} = \$3,649.34 \frac{2}{/}$$

1/ From attachment to Ore Purchase Agreement

2/ \$3,267.60 of the \$3,649.34 was applied against minimum royalty in Lease Year 1981 (see Attachment 3)

Todilto Exploration and Development Corporation
Statement of Differences
Navajo Allotted Lease 46-008396

Minimum Royalties (MR) and Production Royalties (PR)
For Lease Years (LY) April 9, 1980, through April 8, 1985

	<u>Royalties</u>		<u>Royalty Paid</u>	<u>Balance (LY & All LYs)</u>
	<u>MR Due</u>	<u>PR Due and <Credits> Against MR</u>		
LY 1980 (4-9-80/4-8-81)				
MR	\$3,267.60	\$ -0.00	\$3,267.60	\$ -0.00
PR 2/81	-0.00	2,416.15	-0.00	2,416.15
Credit against MR	-0.00	<2,416.15>	-0.00	<2,416.15>
LY '80 Balance	<u>\$3,267.60</u>	<u>\$ -0.00</u>	<u>\$3,267.60</u>	<u>\$ -0.00</u>
LY 1981 (4-9-81/4-8-82)				
MR	\$3,267.60	\$ -0.00	\$3,267.60	\$ -0.00
PR 4/81	-0.00	3,649.34	-0.00	3,649.34
PR 6/81	-0.00	493.65	-0.00	493.65
Credit against MR	-0.00	<3,267.60>	-0.00	<3,267.60>
Payment 5/22/81	-0.00	-0.00	2,932.36	<2,932.36>
LY '81 Balance	<u>\$3,267.60</u>	<u>\$ 875.39</u>	<u>\$6,199.96</u>	<u>\$<2,056.97></u>
LY 1982 (4-9-82/4-8-83)				
MR	\$3,267.60	\$-0.00	\$3,267.60	\$-0.00
PR	-0.00	-0.00	-0.00	-0.00
LY '82 Balance	<u>\$3,267.60</u>	<u>\$-0.00</u>	<u>\$3,267.60</u>	<u>\$-0.00</u>
LY 1983 (4-9-83/4-8-84)				
MR	\$3,267.60	\$-0.00	\$3,267.60	\$-0.00
PR	-0.00	-0.00	-0.00	-0.00
LY '83 Balance	<u>\$3,267.60</u>	<u>\$-0.00</u>	<u>\$3,267.60</u>	<u>\$-0.00</u>
LY 1984 (4-9-84/4-8-85)				
MR	\$3,267.60	\$-0.00	\$ -0.00	\$3,267.60
PR	-0.00	-0.00	-0.00	-0.00
Payment 6/8/84	-0.00	-0.00	334.64	<334.64>
LY '84 Balance	<u>\$3,267.60</u>	<u>\$-0.00</u>	<u>\$334.64</u>	<u>\$2,932.96</u>
Royalty Due for LYs 4-9-80 through 4-8-85				\$875.99
Less: 12/11/85 payment in response to issue letter dated 10/18/85				<451.86>
Additional Royalties Due for LY's 4-9-80 through 4-8-85				<u>\$424.13</u> ^{1/}

^{1/} Todilto paid this amount on January 30, 1987

FILE COPY

Surname

7-22-85
7-22-85

JUL 23 1985

To : Area Director, Navajo Area Office, BIA

From : Area Manager, Rio Puerco Resource Area, BLM

Subject: Navajo Allotted Uranium Lease H00-C-14-20-8396; SW 1/4, Section 18,
T. 13 N., R 10 W., NMP; McKinley County, New Mexico; Todilto
Exploration and Development Corporation

The subject lease was inspected on May 1, 1985 and was found to be properly abandoned.

The quarter-section tract was formerly Navajo Allotted Uranium Mining Lease 14-20-0603-7240 which expired under its own terms October 12, 1972. The last operator of record was Cibola Mining Company which acquired the lease April 16, 1966, via assignment from Mesa Mining Company. About 15 years prior to that, the mine was operated by Federal Uranium Company for approximately 4 years and was known as the Federal Mine. According to mine maps and Bureau of Mines Health and Safety Inspection Reports, the mine consisted of two adjacent, underground workings which were developed through separate declines. The workings extended from the declines to the northwest, south and southwest with the majority of the mining apparently occurring under Haystack Mountain. The mine was never satisfactorily conditioned for abandonment. Todilto Exploration and Development Corporation (TEDCO) conducted only exploration activities on the subject lease. However, TEDCO agreed to reclaim the two declines and a subsidence (?) area that ponds water.

TEDCO backfilled the two declines and graded and recontoured the subsidence area. TEDCO also re-established the drainage away from the declines so that water would not pond by a nearby residence. However, numerous areas which exceed our current recommended maximum gamma levels still exist. These areas are all related to the former mining operations, not TEDCO's exploration activities. We recommend the Bureau of Indian Affairs have a radiation survey done on the subject lease in order to quantify needed corrective actions.

TEDCO should be commended for its actions on correcting several serious safety hazards to the allottees beyond its legal responsibility. Accordingly, there is no objection to the relinquishment of these leases and release of the lessee bonded liability.

(ORIG. SGD.) HERRICK E. HANKS

*Enclosure (Inspection Report)

cc: Superintendent, ENA, BIA
File: Allotted, -8396, TEDCO
Chron

017:GTETREULT:pg:7/19/85:x3606:0060M

P. O. Box "M"
Window Rock, Arizona 86515-0714

ARPH/Minerals

SEP 30 1988

Todilto Exploration & Development Corporation
1209 Mountain Road Place N.E., Suite B
Albuquerque, New Mexico 87110

Gentlemen:

This is to inform you that Mining Lease Indian Lands, Lease No. H00-C-14-20-8396 was officially cancelled August 18, 1988, described as the N/2N/2 of Section 13, T. 13 N., R. 11 W., N.M.P.M., McKinley County, New Mexico, containing 160.0 acres.

As previously stated, your \$10,000 Surety Bond was released on July 16, 1988.

Sincerely,

T. R. TIFPECONNIC

Assistant Area Director

bcc: TRR/1105-13
300
Minerals Chrono

333:DVMORGAN:mbh:09/29/88